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DOE FOR GPERSON, CHAYLOCK

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TAGS: EPET ECON ENRG PGOV PREL NI
SUBJECT: NIGERIAN GEOPHYSICISTS DISCUSS POTENTIAL FOR
UNCONVENTIONAL OIL

Classified By: Consul General Donna Blair for Reasons 1.4 (B,D)

¶1. (C) Summary: At the annual convention of the Nigerian Association of Petroleum Explorationists November 17-21, the head of the association said Nigeria has 40 billion barrels in unconventional oil deposits in Osun and Ogun States. The Minister of State for Energy (Petroleum) acknowledged the troubles in Nigeria's oil sector and said production growth has fallen off dramatically since the 1990s. Despite falling oil prices he urged companies to continue investing in the sector. A Total executive said large scale oil and gas projects in Nigeria take fifteen years on average from the time the oil block is awarded to a company to initial oil production, with capital expenditures on deep offshore projects costing between USD 5 to 10 billion and USD 1 and 5 billion for onshore near offshore project ranging between. He said Total employs as many people for security as it does for actual oil exploration and production in Nigeria. Exploitation of Nigeria's unconventional reserves is not economically realistic in the short and medium term. A Russian diplomat attended the opening day's ceremonies, unusual for such a technical conference. Opinions were mixed about the probable appointment of Rilwanu Lukman as the new energy minister, but he will need a strong presidency backing him to implement oil sector reform plans. End Summary.

Nigeria: 40 Billion in Unconventional Reserves
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¶2. (SBU) At the 26th annual convention of the Nigerian Association of Petroleum Explorationists (NAPE), Dr. Kinsely Ojoh, outgoing NAPE president, told an assembled audience of geophysicists, oil executives and government officials that Nigeria has 40 billion barrels in unconventional oil reserves in addition to its 35 billion of proven, conventional oil reserves. The unconventional oil fields lie in southwestern Nigeria, mainly in Osun and Ogun States and consist of tar sands, heavy oil, and tar pits. Ojoh urged the government of Nigeria to move control of these resources from the Ministry of Solid Minerals to the "Ministry of Petroleum" (presumably he meant the new Ministry of Energy) and to develop oil block licensing for these areas.

¶3. (U) Dr. Ojoh's speech was followed by a presentation by the current Minister of State for Energy (Petroleum) Odein Ajumogobia (Note: Also in attendance was Honorary Special Advisor to the President and prospective minister Rilwanu Lukman and Special Advisor to the President on Petroleum Matters Dr. Emmanuel Egbogah. End Note.) The Minister

remarked that the industry and the GON find themselves in a difficult situation with crude oil prices and production quotas falling. He acknowledged the industry's worry about over investment in the face of future oil price uncertainty, but cautioned against underinvestment in exploration and production. Past periods of falling oil price led, he claimed, to supply capacity constraints when oil prices rose and he noted that growth in Nigeria's oil production capacity has tapered off significantly since the 1980's. The minister called on companies to step up exploration in Nigerian inland basins of Anambra, Benue, Bida, Chad, Dahomey, and Sokoto saying these areas will lead to Nigeria reaching its goal of 40 billion barrels of proven conventional reserves by 2010.

Exxon: USD 86 Billion Needed for Gas Export Projects
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¶4. (SBU) Chikwe Edoziem, an executive with ExxonMobil, told the audience that exploration and development of non-associated natural gas is vital for ensuring reliable supplies to international and domestic markets, but he noted the commercial framework must be in place to make natural gas viable. ExxonMobil predicts West Africa will need USD 65 billion over the next five years for new and expanded liquefied natural gas plants in Nigeria and Equatorial Guinea and USD 21 billion for the proposed trans Sahara gas pipeline connecting Nigerian gas fields to Algeria for export to Europe. (Note: Edoziem did not mention the USD 35 billion the Nigerian National Petroleum Corporation predicts Nigeria will need to build its domestic natural gas infrastructure as part of the country's gas master plan. End Note.)

Total: Long Term Projects Demand Stability, Security
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¶5. (SBU) During an afternoon session on the Niger Delta, Total exploration manager Pierre Cuisnier said development times for his company's Nigerian projects average 15 years from awarding of the oil block to first production of oil. Given that a typical project in Nigeria will operate for twenty to thirty years after first oil production, Cuisnier emphasized that contract and fiscal stability were critical for project planning and investment decisions. (Comment: What was left unsaid by Cuisnier and other speakers was the implicit criticism that the GON's policies, regulations, and fiscal terms are increasingly unstable, deterring investment in an already tough market. End Comment.) He did complain about joint venture funding and said that at present joint venture funding levels, Total expects to shut in oil wells in the near future. The reduced funding level is also leading to accelerated natural decline of oil fields, he said, as the joint venture companies do not have the money to invest in enhanced oil recovery equipment. He went on to lament the growing threat of piracy in the waters off Nigeria's coast, remarking that Total-owned and leased boats are operating in convoys protected by armed, but inadequate, Nigerian Navy escort boats, something he politely termed "not a normal way of doing business." When asked by an audience member about the impact of security costs on project expenditures, Cuisnier could not provide a specific breakdown for security, but he noted his company employs as many people in Nigeria for security as it does for exploration and production.

¶6. (SBU) Cuisnier showed a PowerPoint slide that stated Nigeria's current oil production had fallen to 1.6 million barrels per day, down from 2.4 million 18 months ago. Several other panelists nodded in agreement and no one from the audience of petroleum experts rose to challenge the current production number, which is significantly below Nigeria's official figure of 1.98 million barrels. (Comment: Nigerian oil industry engineers and geophysicists are normally not shy about publicly pointing out errors and misstatements by presenters. The minister and special advisors were not in attendance for this presentation. End

Comment)

¶7. (C) A Russian Embassy third secretary from the trade and economic section attended the conference. A UK commercial officer noted the Russian's attendance as well and later remarked to Energyoff that she had seen a Russian second secretary at the NAPE pre-conference meeting in Lagos in September 2008. She agreed that it was unusual to see Russian diplomatic presence at Nigerian petroleum related events, particularly at NAPE conferences which are technical in nature and geared towards Nigerian industry insiders. Several Chinese businessmen attended the conference, but no Chinese diplomatic presence was evident.

¶8. (C) Comment: Although the conference was billed as focusing on Nigeria's potential for unconventional oil, the main topics of conversation on the opening day were the familiar laments of poor security, inadequate funding, and inconsistent policy. On the 40 billion barrels of potential unconventional oil reserves, one participant put it best when he said, "We're having problems just getting the conventional oil out of the ground. Unconventional oil is a long way off." During side bar conversations about the probable appointment of Rilwanu Lukman as the new energy minister, opinions were decidedly mixed. Many interlocutors commented on his age, health, and presumed reluctance to take another ministerial job. They wondered if he was the right man to lead the sector reform, given his long history with the industry and connections to private oil companies. (Note: Lukman is the Chairman of Afren Plc, a UK-based oil and gas company with significant investments in Nigeria and West Africa. End Note.) However, some Nigerian oil executives thought only an insider familiar with the inner workings of Nigeria's oil sector would have the political savvy to reform it. For reform of the oil sector to succeed, whoever is leading Nigeria's energy ministry will need strong and consistent support from the Villa. Unfortunately, strong and

consistent are not adjectives one would associate with the Yar'Adua administration's stewardship of the oil industry in the past eighteen months. A president in ill health and an aging, reluctant oil minister may not be the ideal combination to take on the Nigerian National Petroleum Corporation and all those who feed off its present structure. End Comment.

¶9. (U) This cable cleared with Embassy Abuja.
BLAIR